UBS

Why did my fund's share price just drop?

Understanding mutual fund distributions

Why do mutual funds pay distributions?

In accordance with IRS tax rules, mutual funds are required to pay out to shareholders any net income or net gains they earn each year. These payments, known as fund distributions, may come from investments that a fund sells at a profit (realized capital gains), or from dividends or interest paid on investments that a fund holds (income). A realized capital gain occurs when a mutual fund manager sells a security in the portfolio that has increased in value since its purchase.

How it works

An example of mutual fund distributions

Your mutual fund account

Your investment value:	$100,000
Fund's net asset value:	$10 per share
Number of shares you own:	10,000

On the ex-date

Fund distributes capital gains equal to:	$1 per share
Your net asset value is now:	$9 per share
Your investment shows as:	$90,000
You have also received income of:	$10,000
Your account value remains:	**$100,000**

On the reinvestment date

You reinvest your distribution and buy:	1,111.11 shares
At $9 per share, they are worth:	$10,000
Your account value remains:	**$100,000**

How are the capital gains distributed?

Mutual funds do not pay taxes on realized capital gains. Instead, they pass these gains on to shareholders. Unless you hold your fund in a retirement account such as a Roth IRA or a 401(k) plan, you must pay taxes on fund distributions, whether or not you reinvest them. The gains are taxed differently depending on how long the securities were held. Note that net investment income—made up of interest and dividends—is taxed at ordinary income tax rates.

Holding period	Capital gain category	Tax rate
One year or less	Short-term	Ordinary income
More than one year	Long-term	15% to 20%

How does the distribution get reinvested?
If you have elected to automatically reinvest your distributions (most common), you will now buy more shares at the new, lower NAV. This transaction occurs on the reinvestment date. Your total invested assets are exactly what they were before the distribution was paid.

Why did the price of my fund decline?
Many fund investors automatically reinvest their distributions, keeping their money in the fund. But the account statements that you receive at the time of the distribution can make it seem like you lost money. The statements show that the distribution affects the fund's net asset value, or NAV. The NAV is the price per share—the total amount of a fund's net assets divided by the number of shares outstanding. When the distribution is recorded on the fund's accounting records, on what is called the ex-dividend date ("ex-date"), the fund's net assets decline and its NAV is lower as a result.

The value of your account remains unchanged, but now its composition is different. Instead of all of your assets being invested in shares of the fund, you now own additional shares from the distribution. For example, if the fund's NAV was $10 per share prior to the ex-date, and the fund pays a distribution of $1 per share, the fund's NAV will decline to $9 per share, but you will still own the same total value as before the distribution. It will be composed of $9 per share in fund assets multiplied by the total shares you now own which includes the shares deposited for the distribution. In the end you have more shares, at a lower NAV, but the sum of them is the same as before the NAV changed. What appeared to be a loss in your account value has been made whole with the purchase of additional shares, although at a lower NAV. Therefore, it does not affect your total return. Of course, this does not take into consideration whether the market has gone up or down during that time.

We hope this has been helpful in understanding your statements and account value when distributions are paid. If you have additional questions about your mutual fund distributions, please consult your tax advisor.

Please note that UBS Asset Management and its affiliates do not provide tax advice.

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